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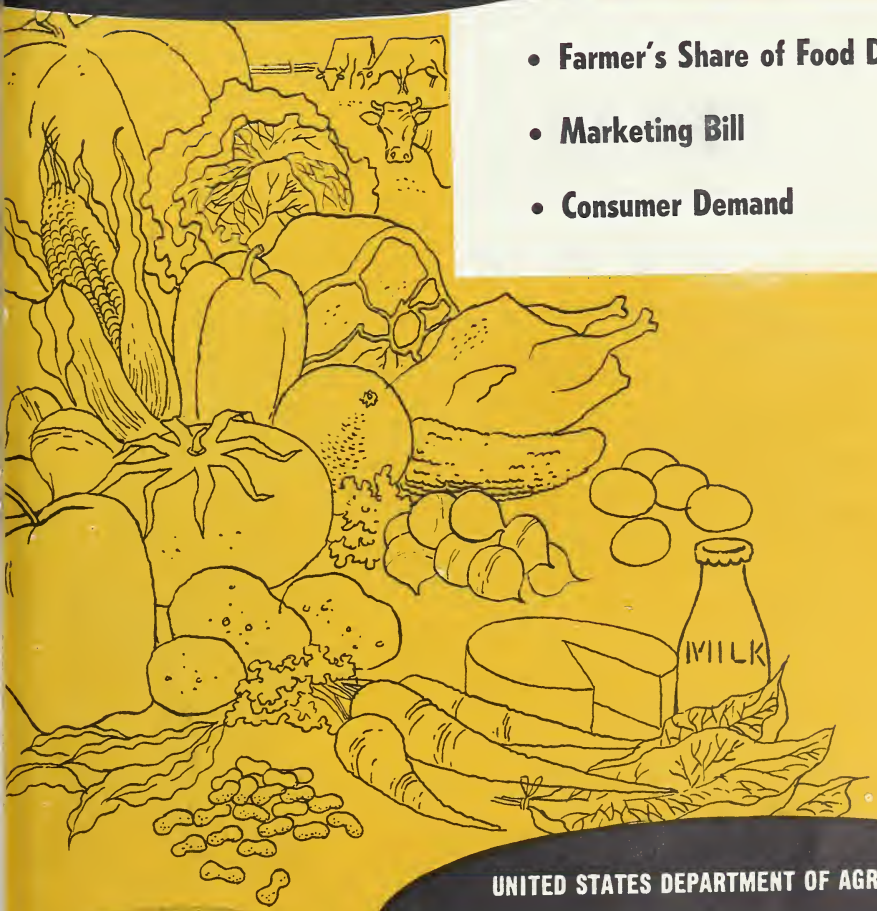
Marketing Costs For Food

- Farmer's Share of Food Dollar
- Marketing Bill
- Consumer Demand



UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Washington, D. C. December 1955

Miscellaneous Publication No. 708

The farmer, the food trade, and the consumer all view the costs of food with common interest but from different viewpoints. What happens to these costs—and what the costs are—is a matter of continuing concern to them all.

The farmer is particularly interested in the divergence between farm and retail prices of food products—and in his own income position. The marketing system—including the transportation and other distribution parts—is concerned with the cost of getting food to the consumer. The consumer is concerned with what his food dollar will buy.

The farmer, along with the consumer, questions why his lower prices are not reflected at retail. The food trade is concerned over the many increases in almost all the costs of marketing. Over many of these costs marketing agencies have no direct control.

Farm prices are subject to sharp and sudden fluctuation; marketing costs are not. Marketing costs are largely nonfarm costs and not directly related to farm prices. Marketing costs rise more slowly than farm prices and they fall later and slower. For four consecutive years now, food marketing costs have been increasing despite declining farm prices.

The consumer's food dollar goes to pay the many different groups in our economy that perform the multitude of services required to produce, process, and distribute our food supply. It pays the workers in agriculture, and pays for the services, supplies, and equipment used in farming operations. It pays the processors, transportation agencies, wholesalers, retailers, and other agencies that employ millions of workers. These agencies also make payments for rents, advertising, machinery and equipment, and supplies. The number of workers in the processing and distributive trades is increasing each year.

How this dollar is distributed is of concern then to the farmer, the food trade, and the shopper in the retail store. This leaflet summarizes recent trends in food marketing costs and in the distribution of the consumer's food dollar.

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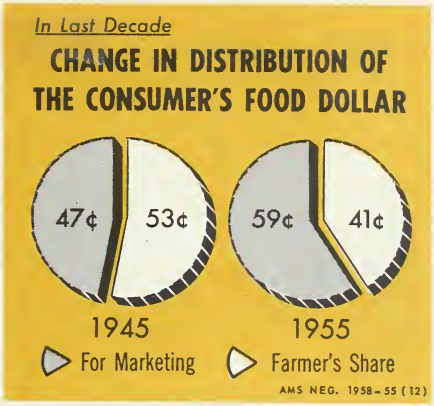
The Farmer's Declining Share

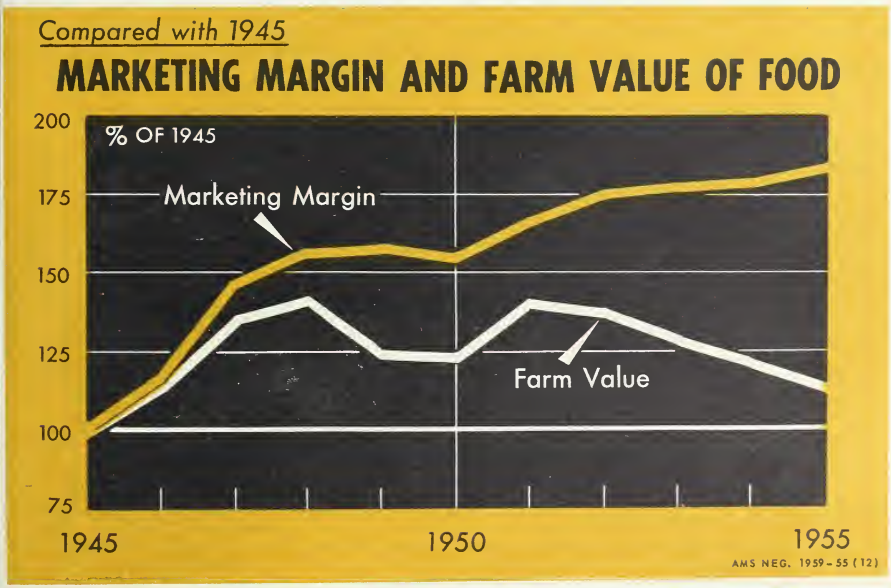
The farmer's share of the consumer's retail food dollar dropped steadily from a record high of 53 percent in 1945 to 41 percent in 1955. It has declined in all but 2 years since 1945.



What Caused the Decline?

The spread between farm and retail prices of food products (MARKETING MARGIN[1]) has increased more than prices received by farmers (FARM VALUE[1]) between 1945 and 1955. The farm-to-retail price spread in turn has widened primarily because of the increased cost of performing marketing services.

The marketing margin went up in all but 1 of the 10 years. It increased a total of 83 percent. The farm value rose in only 4 years. In 1955 it averaged 13 percent higher than in 1945.

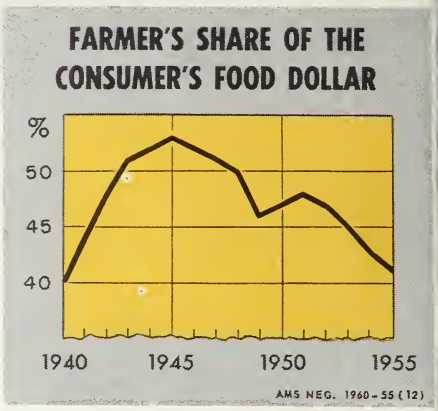


[1] As used in this report, the MARKETING MARGIN is the difference between retail-store cost of a typical family market basket of farm food products and payment received by farmers for an equivalent quantity of farm produce (FARM VALUE). The marketing margin includes all charges for processing and distributing farm products after they are sold by farmers.

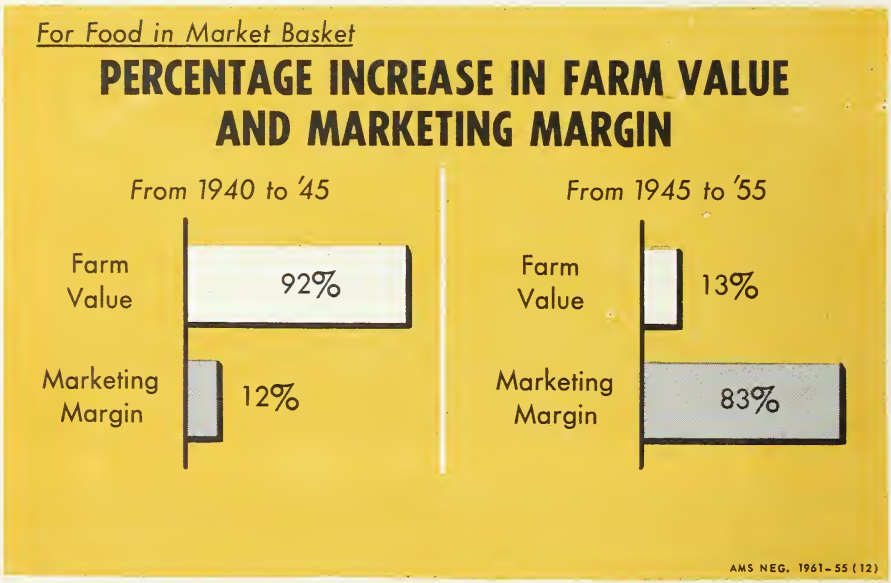
Farmer's Share Up Sharply During World War II

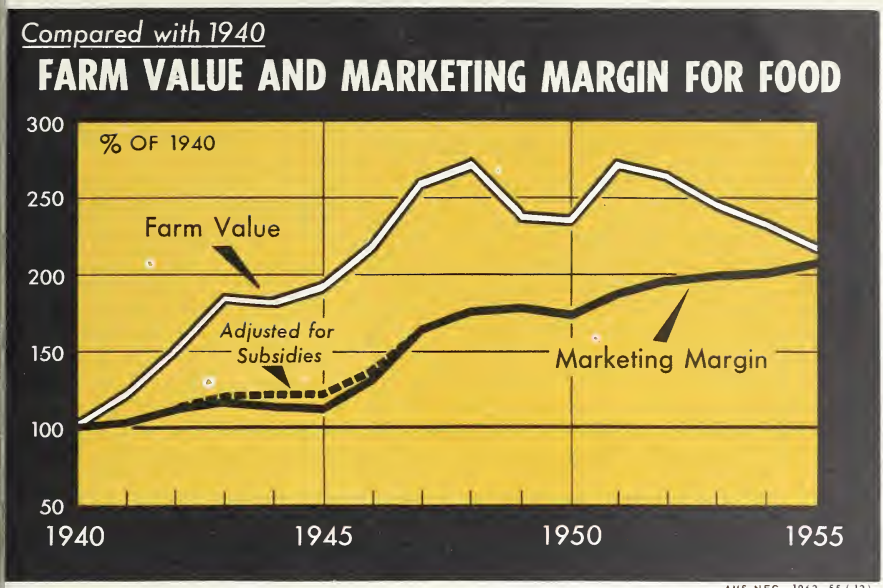
The farmer's share increased from 40 percent to a RECORD HIGH of 53 percent in the 5-year period 1940 to 1945.

The farmer's share of 41 percent in 1955 is equal to the average for 1920–29 and slightly above the 1935–39 average. In 1932 and 1933 the farmer's share reached a RECORD LOW of 32 percent.



The rapid increase in the farmer's share during World War II was caused by an almost 100 percent increase in prices farmers received. The marketing margin went up only an eighth during this period. The different rates of increase in the marketing margin and farm value during the two periods 1940–45 and 1945–55 are illustrated.





Marketing Margin and Farm Value Relationship the Same

The marketing margin and farm value are now in about the same relationship as just before World War II. The total increase in each series is more than 100 percent. Since 1940 the farm value has increased slightly more than the marketing margin.

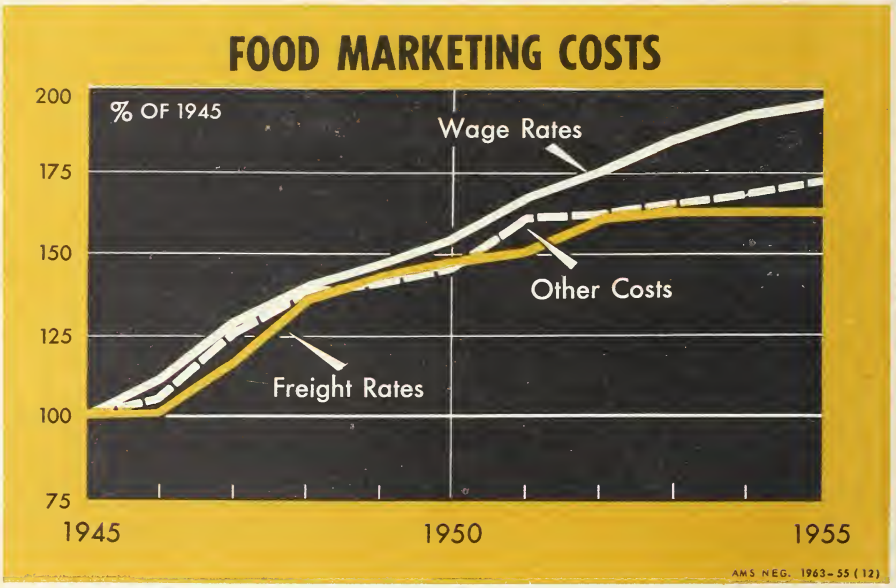
The slower rise in the marketing margin during World War II was partly the result of wartime wage and price controls. Subsidies were paid to marketing firms to keep retail prices from going up. These also raised the farmer's share to a higher percentage of retail cost than otherwise would have been true. For some products farmers received Government producer payments which also were intended to hold down retail prices during the war period.

The Widening Spread

The spread between farm and retail prices has widened greatly since 1945. This is the primary factor in the decline in the farmer's share between 1945 and 1955.

Why the increased spread? All costs of marketing have increased substantially since 1945. Wage rates have increased in each year and are almost 100 percent above 1945. Freight rates and other costs—packaging material, containers, fuel, equipment, rents, etc.—are up about two-thirds.

State and local property taxes also are a part of the cost of doing business and, therefore, increase the spread between farm and retail prices. They have increased substantially since 1945.



In Food Marketing

PERCENTAGE INCREASE IN LABOR COSTS, 1947-49 to 1955

AMS NEG. 1964-55 (12)

Increased Output Holds Down Labor Costs

Labor costs are the largest single item in the operating costs of most food marketing firms. In many instances they amount to more than half the gross margin (difference between raw material cost and selling price).

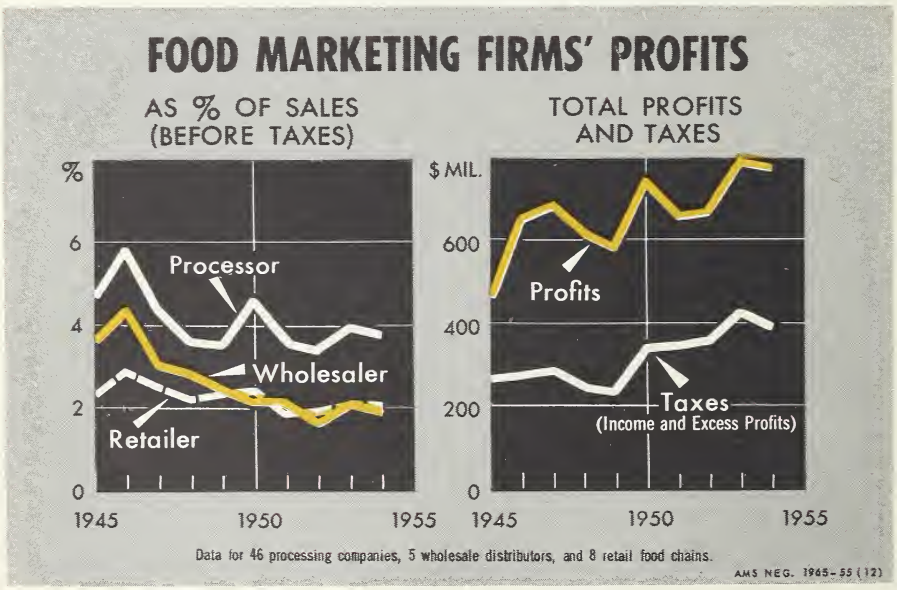
Actual labor costs have not increased as fast as wage rates because output per man-hour has increased. Compared with the 1947–49 average, hourly earnings of food marketing workers increased 43 percent and labor costs per unit of product 26 percent. Because this 26 percent does not take full account of increased services provided, the entire increase in productivity may not be reflected in this comparison.

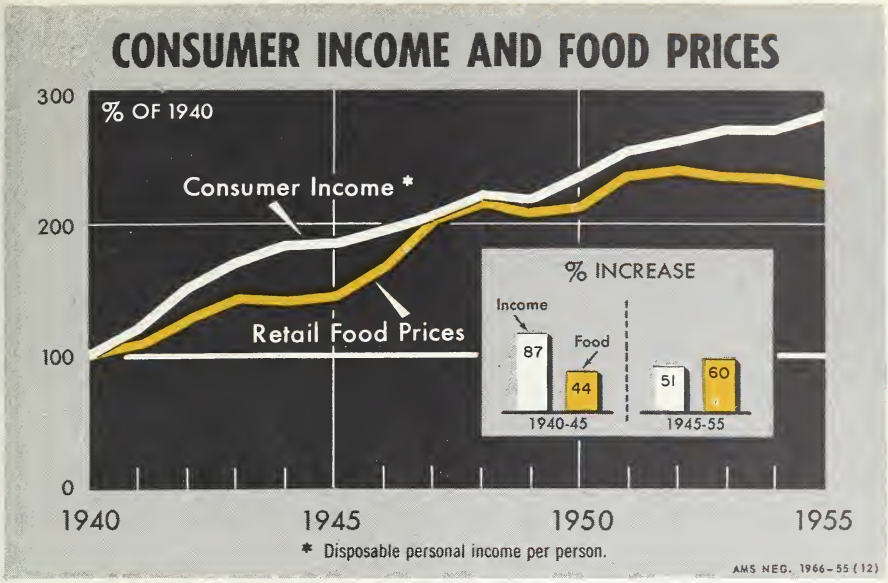
Profits Are Part of Farm-Retail Price Spread

Profits of food marketing firms are a part of the farm-retail price spread. Profits as a percentage of the sales dollar have fluctuated considerably in recent years. At a high point in 1946, they have shown no marked trend in recent years.

Total profits before taxes of a group of large food processors, wholesale distributors, and retail food chains have grown substantially since 1945. Larger total profits in recent years can be explained primarily by the increased volume of food sales handled by these firms.

The profits given in these charts include income and excess profits taxes. These taxes as a proportion of total profits for the 59 firms have been slightly more than 50 percent in each of the last few years. Over the 1945–54 period, however, they have ranged from a high of 57 percent in 1945 to a low of 40 percent in 1948 and 1949.





Trends in Retail Food Prices and Consumer Income

Retail food prices are now more than double the 1940 level. In recent years, however, food prices have tended downward.

Meanwhile, disposable personal income per person has continued its upward climb in all but 1 year since 1940. It increased more rapidly (87 percent) during World War II than in the last 10 years.

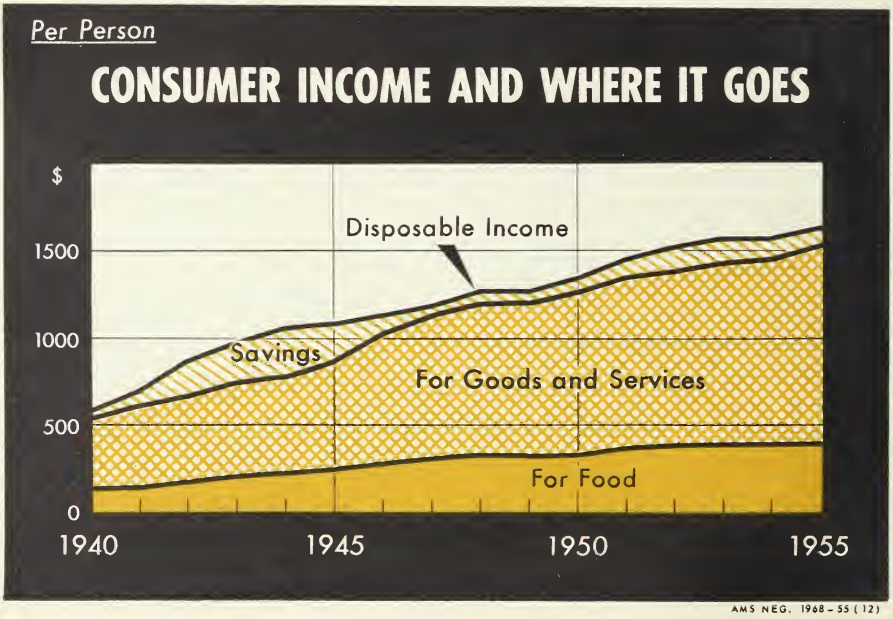
In the immediate postwar period, retail food prices advanced more rapidly than disposable personal income. But retail food prices are now only slightly above the 1948 peak while income per person has increased substantially.

How Much Income Goes For Food?

Consumers spent a slightly larger share of their income for food in 1955 than they did in 1940. This is because they are eating more and better foods at home and buying more restaurant meals than in the prewar period. In part, the proportion of income spent for food has stayed up because of consumers' willingness to buy more and more services with their foods.

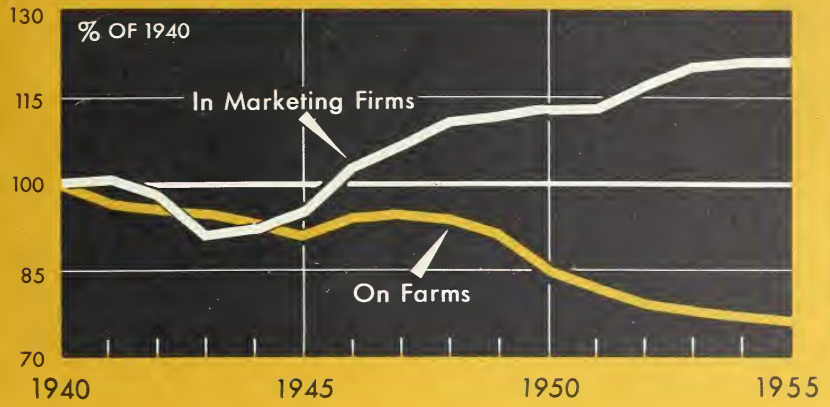
For the same kinds and quantities of food that consumers bought in 1935–39, they would have spent only 17 percent of their income in 1955 compared with 23 percent in the prewar period.

Over the past 15 years, the amount spent for food per person has more than tripled. During this period, disposable income not spent for food has increased from about $450 to more than $1,200.



Compared with 1940

WORKERS IN FARM PRODUCTION AND IN MARKETING OF FOOD



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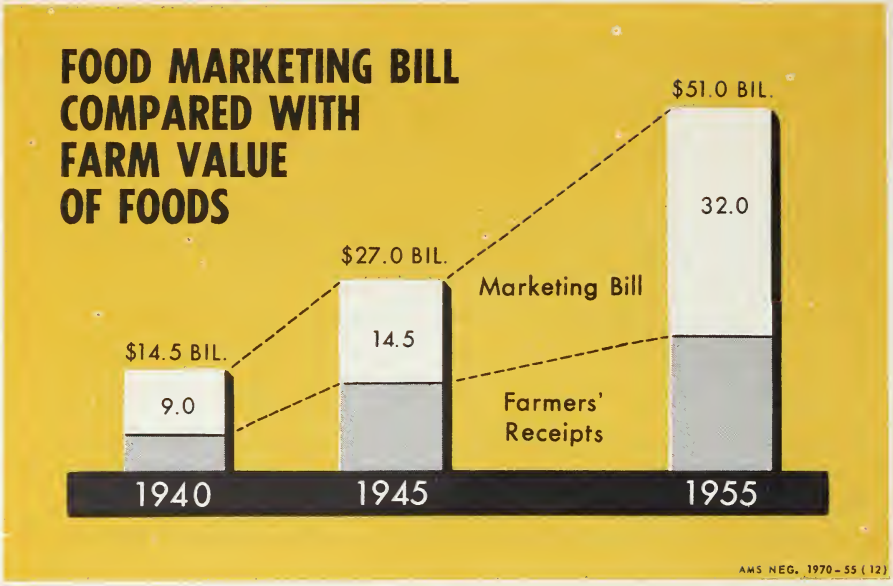
Fewer Farm Workers, More Marketing Workers

The farmer's share of the consumer's food dollar in 1955 was only slightly larger than in 1940. During this period, however, the number of workers on farms declined by about one-fourth while the number of workers engaged in processing and distributing food products has increased by almost a fourth.

The large increase in output per worker in agriculture since 1940 has freed agricultural workers for military service and nonagricultural employment despite an increase in total output since that time.

Productivity of workers in food marketing also has increased since 1940 although perhaps not as spectacularly as in agriculture. In addition, the marketing system provides many more services today than in 1940.



Marketing Bill Up 23 Billion Dollars

Consumer expenditures for farm food products increased from 14.5 billion dollars in 1940 to 51 billion dollars in 1955. (This INCLUDES expenditures for all foods marketed from U. S. farms and bought by civilian consumers regardless of point of purchase.)

Farmers' receipts from sales of food products increased from 5.5 billion dollars in 1940 to 18.5 billion dollars in 1955. During the same period the marketing bill (the difference between consumer expenditures and cash farm receipts from the sale of food products) increased from 9 billion dollars to 32 billion dollars. These charges include all costs, profits, and taxes on profits. The largest rise in farm receipts came between 1940 and 1945 while the biggest rise in the marketing bill has come since 1945.

Why the Increase?

1. Larger volume

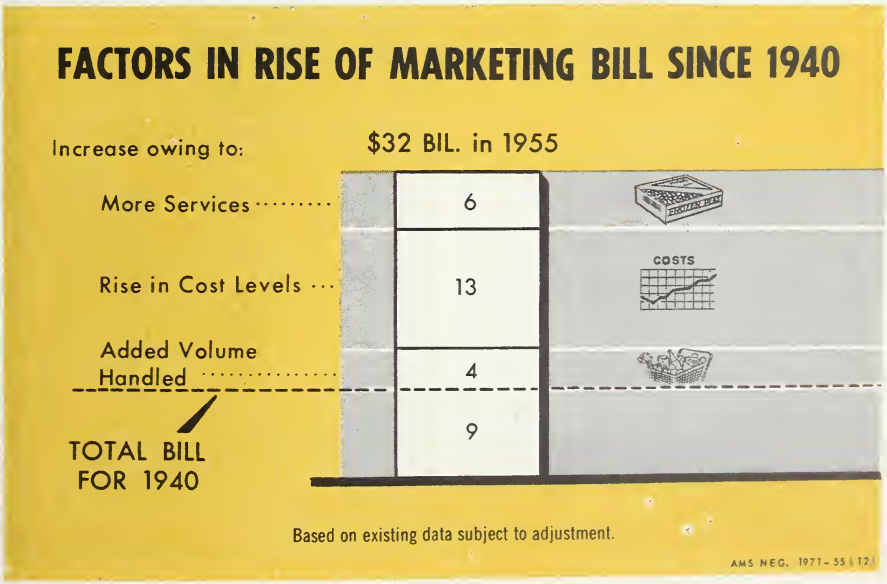
2. Higher costs

3. More marketing services

Several factors accounted for the 23 billion dollar increase in the marketing bill from 1940 to 1955. The volume of food marketed increased during this period by more than 40 percent. This increase would raise the 9 billion dollar bill at the 1940 cost level to about 13 billion dollars.

At the 1955 cost level, the bill for marketing this volume of food would amount to 26 billion dollars. With the general rise in all prices and costs since 1940, charges for performing marketing operations roughly doubled. (This increase is measured by the Marketing Margin shown in the chart on page 3).

The remaining 6 billion dollars of the increase represents payments consumers are making for new marketing services which have been added since 1940. The value of added services is measured at current cost levels. However, improved efficiency in the processing and distributing of food products between 1940 and 1955 has meant that some additional marketing services could be provided without adding to the total marketing bill.

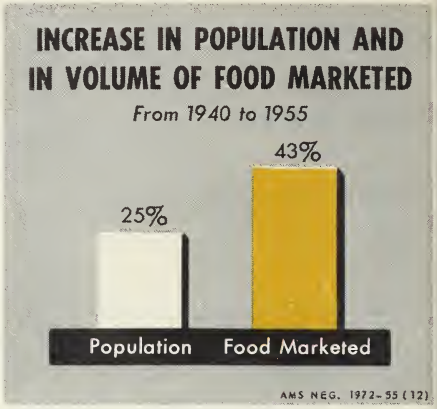


Increase in Volume of Food Marketed Greater Than Population Increase

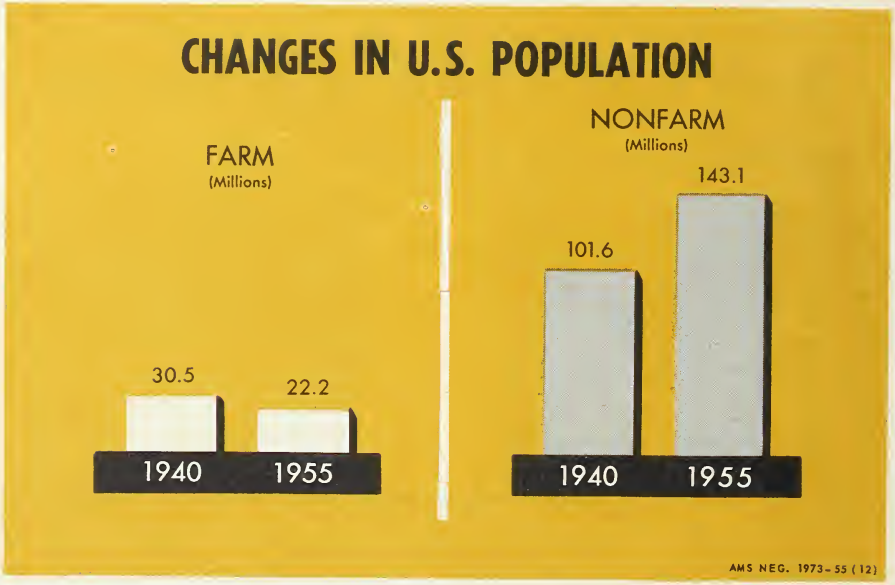
Although the total increase in civilian population between 1940 and 1955 was 25 percent, the increase in the population living off farms amounted to over 40 percent. This is the result of the actual decline in number of people living on farms during this period.

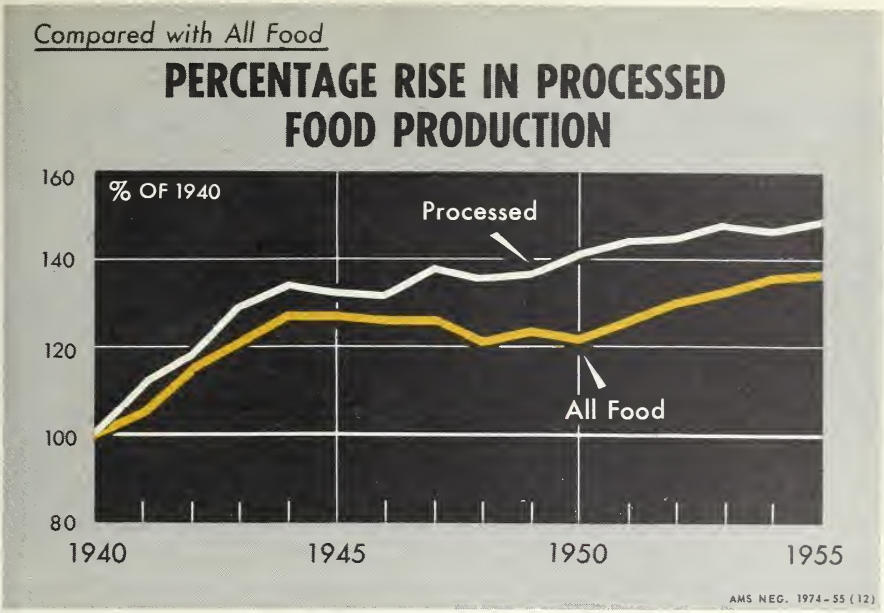
Between 1940 and 1955 our total population increased from 132 million to 165 million. The number of people living on farms declined from 30.5 million to 22 million. Therefore, the farm population as a percentage of the total population has declined from 23 percent to a little more than 13 percent.

The change in the population living off farms is the most important factor affecting changes in the volume of food marketed. People on farms generally obtain a large part of their food supply from their own production. This food does not enter the marketing system. But people on farms are buying more processed foods and buying a larger portion of their total food than they were in the prewar period.



More People Now Live In Cities





More Marketing Services

The marketing system is providing more services—packaging, processing, and more convenience foods—that add to the labor and cost required to move foods from the farm to consumers. For example, production of processed foods since 1940 has increased by almost 50 percent compared with an overall increase of about one-third in total food production. Not all processing necessarily adds to the cost of food. In some cases the reduction in waste and spoilage and the higher costs of shipping perishable foods may offset the extra costs of processing.

More Meals Eaten Out

Consumers are eating more meals away from home than in 1940. On the average, at least half of the cost of these meals is for the service and preparation of food. More people have jobs away from home and are eating their noon meals in restaurants and cafeterias. Meals eaten out account for about $1 out of every $4 spent for food.

1940

1955

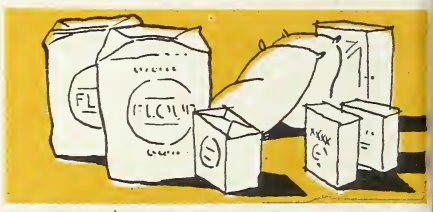
U. S. GOVERNMENT PRINTING OFFICE: 1955 O—370375

Other Examples of Today's Increased Marketing Services

Consumers are less dependent on nearby producing areas for their fresh produce. This means more fresh foods are available year around but more refrigeration, longer transportation hauls, and more handling of produce are necessary.

More foods are being packaged.

Foods are being packaged in smaller sizes because consumers want to buy their foods in smaller units.



Many products are now ready for cooking when the housewife buys them.